

Message Text

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PAGE 01 STATE 015604

46

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI

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E.O. 11652:N/A

TAGS:BEXP, IN

SUBJECT: PROPOSED SALE OF U.S. LOCOMOTIVE ENGINES TO INDIA

1. SUMMARY - OVERSEAS DIESEL CORPORATION, WHOLLY OWNED SUBSIDIARY OF ALCO ENGINES DIVISION, WHITE MOTOR CORPORATION, HAS REQUESTED EMBASSY ASSISTANCE IN CLINCHING \$2.8 MILLION SALE OF 20 DIESEL LOCOMOTIVE ENGINES TO INDIA. END SUMMARY.

2. BACKGROUND - OVERSEAS DIESEL CORPORATION (ODC) REPRESENTATIVE PAUL M. LEGAC CALLED AT DEPARTMENT JANUARY 21 AND REQUESTED ASSISTANCE IN SECURING SALE OF 20 TWELVE CYLINDER DIESEL LOCOMOTIVE ENGINES TO INDIAN RAILWAYS. ODC IS RESPONSIBLE FOR SALE OF ALCO PRODUCTS IN INDIA. IN 1962, ALCO HELPED ESTABLISH DIESEL LOCOMOTIVE WORKS (DLW) FACILITY IN VARANASI TO MANUFACTURE ALCO DIESEL ENGINES AND LOCOMOTIVES UNDER LICENSE. APPROXIMATELY 1000 ENGINES HAVE BEEN BUILT BY DLW UNDER LICENSE FROM ODC. IN ADDITION,

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PAGE 02 STATE 015604

ODC SOLD APPROXIMATELY \$7.5 MILLION IN GOODS AND SERVICES TO

INDIA IN 1975, PRINCIPALLY TO INDIAN RAILWAYS.

3. THE PROBLEM - IN RESPONSE TO RAILWAY BOARD TENDER LT-30 (1975), ODC OFFERED TWENTY 12 CYLINDER DIESEL ENGINES FOR LOCOMOTIVE USE BUILT IN ALCO'S PLANT IN AUBURN, NEW

YORK. THE TENDER REPORTEDLY REQUIRED THE SUCCESSFUL TENDERER TO ALSO SUPPLY MANUFACTURING SPECIFICATIONS, DRAWINGS AND MATERIAL SPECIFICATIONS, FOR THE ENGINES PURCHASED. THIS INFORMATION WOULD ENABLE THE PURCHASER TO MANUFACTURE THE ENGINE IN INDIA. THE TENDER DOCUMENTS INDICATED THAT THE LIKELY SOURCE OF FINANCING FOR THE ENGINE PURCHASE WOULD BE AN IDA CREDIT.

4. ON JULY 25, 1975, ODC OFFERED TO SELL THE ENGINES FOR \$147,104 EACH. THIS PRICE INCLUDED ALCO'S MANUFACTURING SPECIFICATIONS, AS REQUESTED IN THE TENDER. THE PRICE WAS LATER REDUCED TO \$142,104, AND SUBSEQUENTLY, ON DECEMBER 10, 1975, TO \$138,550.

5. MLW INDUSTRIES OF MONTREAL, CANADA, IS THE ONLY KNOWN COMPETITOR FOR THE BUSINESS, AND HAS ENTERED A PRICE OF C\$138,647. MLW, A LICENSEE OF ODC, WAS UNABLE TO OFFER MANUFACTURING RIGHTS AND SPECIFICATIONS. ACCORDING TO LEGAC, THE CANADIAN AMBASSADOR IN NEW DELHI HAS BEEN ASKED AND HAS AGREED TO EXERT "POLITICAL PRESSURE" ON KEY INDIAN RAILWAY PERSONNEL TO INFLUENCE THE GOI'S DECISION.

6. TO COMPLICATE MATTERS FURTHER, LEGAC ALLEGES THAT DLW, WHICH HAS A LEGAL RIGHT TO PRODUCE 6 CYLINDER ENGINES UNDER LICENSE FROM ODC, HAS BEGUN TO MANUFACTURE 12 CYLINDER MODELS SIMILAR TO THOSE OFFERED FOR SALE TO INDIA. IN THE MANUFACTURING PROCESS, ACCORDING TO LEGAC, DLW IS USING ODC TECHNOLOGY ILLEGALLY, AND ODC IS CONSIDERING LEGAL ACTION. APPARENTLY, DLW HAS DEVELOPED MARKET FOR LARGER ENGINES IN TANZANIA, ZAIRE AND IRAN, AND NEEDS THE EXPORT BUSINESS TO REMAIN SOLVENT. ODC, OF COURSE, IS PREPARED TO FORGIVE DLW THIS TRANSGRESSION IF INDIAN RAILWAYS BUYS THE TWENTY ENGINES PLUS TECHNOLOGY OFFERED FOR SALE.

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PAGE 03 STATE 015604

7. ASSISTANCE REQUESTED - LEGAC HAS ASKED THAT EMBASSY NEW DELHI MEET WITH C.B. LAL OF RAILWAYS BOARD AND ASCERTAIN STATUS OF PURCHASE DECISION. HE HAS ALSO ASKED THAT EMBASSY TAKE ALL POSSIBLE STEPS TO ENSURE ODC BID RECEIVES FAIR CONSIDERATION, AND TO DO WHATEVER IS APPROPRIATE TO HELP ALCO MAKE SALE. LEGAC HAS INFORMALLY ADVISED DEPARTMENT HE IS PREPARED TO GO TO INDIA ON SHORT NOTICE IF THIS

WOULD BE HELPFUL, AND WOULD CONSIDER FURTHER REDUCTION OF
PRICE IF THIS IS NECESSARY TO WIN CONTRACT.

8. GOOD LUCK. SISCO

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